

Limiting Child Benefit and Child Tax Credit – Policy Suggestion

1. Summary

By limiting child-dependent benefit payments to the first two children, the government could cut its welfare bill by £3billion per annum. Additionally, such a policy would act as an incentive for families to have fewer children, further benefitting public finances by limiting future population growth and the resultant financial and social costs.

In addition, a decline in family size would improve disposable household income, reducing poverty. It would also encourage female participation in the workforce, which would improve gender equality, personal fulfilment and sense of worth, the availability of skills and the dependency ratio, while reducing demand for migrant labour.

Finally, such a change will remove the unfairness of those with smaller families having to subsidise those who choose to have larger families.

Undesirable side-effects to this policy can be avoided if they are carefully managed. Child poverty can be targeted in other, arguably more efficient, ways, including strengthening employee rights and minimum wage laws. Public health measures to discourage unplanned pregnancies will further reduce the impact of the policy.

The public reaction to this spending cut does not have to be negative if it does not affect existing children and if it is presented as both a way of increasing fairness and a fiscally responsible act that is intended to ensure the financial security of society and of future generations.

2. Introduction

The purpose of this document is to make the case to the government to adopt the policy of only providing Child Tax Credit and Child Benefit to the first two children per family. This is further to the recent reforms of limiting Child Benefit to high-earners and of bringing both into the new Universal Credit and Benefit Cap system.

3. Why should the government limit child benefit and Child Tax Credit to the first two children?

3.1 Saving in benefit bill

A primary argument for limiting child benefit is to reduce the government's welfare bill. Reducing the number of children eligible for financial support would cut government spending by up to £3.1 billion per annum.ⁱ

3.2 Reducing cost to government arising from population growth by encouraging smaller families

Growing populations cost money. It has been estimated that each additional person requires £165,000 to be spent on housing, infrastructure, equipment and training, to extend to them the services, living standard and employment opportunities of current UK residents.ⁱⁱ

With the UK population projected to increase to 70 million by 2027ⁱⁱⁱ, the government has a duty to fully understand how this will affect the country, including its finances, and to attempt to influence the scale of this increase. The cost of population increase depends on its rate of growth. A low rate of growth at 0.24% increase a year would cost the UK £26 million per annum, a medium growth rate of 0.58% would cost £67 million per annum, while a large rate of 0.89% growth per year would cost £106 million per annum.^{iv} Therefore, by influencing the level of increase, the government could be saving £1.1 trillion, £2.7 trillion or £4.2 trillion by 2050, depending on the rate of growth.^v

The majority of population growth is due to natural growth (births outnumbering deaths), and the Total Fertility Rate has been increasing in recent years. While the proportion of 3 and 4+ families remains relatively stable,^{vi} we recommend government policies which support smaller family sizes in order to discourage continued population growth and the costs that would result.

Currently, 47% of UK benefit spending goes on state pensions, and this percentage will increase as the baby boomer generation approaches retirement age. While the recommendations in this paper do not affect this spending in the short term, in the long run, by encouraging smaller family sizes, the government can reduce spending on pensions and elder care, passing on a more fiscally secure future to the coming generations.^{vii}

3.3 Improving household disposable income and female workforce participation by encouraging smaller families

A key outcome for this reform would be to encourage women to have smaller families. This would not only help reduce population growth, thus benefiting wider society, but also individual women and families. Reducing the number of children per family improves women's participation in the workforce and education through reducing child care costs and demands on personal time.

In addition, there is a strong positive correlation between large families and child poverty. The causes of this poverty must be addressed, as well as encouraging parents to consider financial, as well as other, motivations when planning their family sizes. The government should encourage responsible, smaller families.

3.4 Fairness

In this challenging economic climate and time of austerity, it is unfair to expect the average tax payer to fund the choices of the minority who have large families when they are not able to fully support them. While every effort must be made to prevent child poverty, equally, the government should encourage personal responsibility and effective financial planning when individuals choose whether or not to have more children.

4. The current situation

4.1 Child Benefit

In 2012, Child Benefit cost the Government £12.22billion, which is just over a quarter of HMRC spending on welfare and 6% of total spending on social security^{viii}. This covers 7.9 million people, of whom 1.22 million have 3 or more children.^{ix} Out of 13.77 million children receiving Child Benefit, 1.68 million of them were third or subsequent children.

The IFS estimates that restricting CB to two children could save £700m. If this policy were only applied to those unemployed, savings would equal £200m.^x

4.2 Statistics on Child Tax Credit

Personal Tax credit, which includes Child Tax Credit, amounted to £29.91 billion, 64% of HMRC spending in 2010-11.^{xi} Child Tax Credit cost £20.4 billion in 2011-2012.^{xii} 13 million families claim CTC (both in and out-of-work families, either receiving only CTC or in combination with WTC^{xiii}), 896,000 of whom have 3 or more children. Out of 9.128million children receiving CTC, 1.283 million of them are third or subsequent children.^{xiv}

The IFS estimates that restricting CTC to two children could save £2.4billion. If this policy were only applied to those unemployed, savings would equal £1.4billion.^{xv}

4.3 Current Reforms affecting Child Benefit and Child Tax Credit

4.3.1 Universal Credit

As of 2013, Child Tax Credit will be included in the newly introduced Universal Credit limiting state benefit to a maximum of £500 per week for working-age families, whether single parent or a couple.^{xvi} The child element of Universal Credit equals £260 per year for every additional child after the first. Single earner-families with one child earning over £27,000 will not be eligible for Universal Credit, the income maximum for eligibility increasing to £33,000 if there are two children in the household and to £39,000 with three children.^{xvii} Therefore, our proposal extends to Universal Credit. We propose limiting the child element of Universal Credit to the first two children.

4.3.2 Benefit Cap

Child Benefit is to be included in the Benefit Cap introduced in line with Universal Credit. This would limit the amount of benefits any individual can receive in one year. These changes are expected to affect 58,000 families containing 80,000 adults and 190,000 children^{xviii}. 74% of families affected have 3 or more children.^{xix}

4.3.3 Limiting Child Benefit for high-income individuals

Recent reforms mean families with at least one earner taking home £50,000 or more do not qualify for Child Benefit, and so must either stop claiming it, or repay it through their tax. Therefore, as higher earners are exempt from these payments, our argument does not affect them, although we believe that all members of the population should be encouraged to consider family size.

Roughly 1.5million families will effectively lose Child Benefit due to this change, 200,000 of whom have 3 or more children.^{xx} After this removal of benefits, Child Benefit will continue to be claimed by 7.1million families covering 11.7million children, and will cost £10.4billion in 2013-2014.^{xxi} Combining this reform with our proposal of limiting Child Benefit to two children would affect 850,000 families and save £715million.

5. Areas of Concern

5.1 Formation of new families

Considering that single parents with children can form new relationships and have subsequent children, and that their new partners may also have pre-existing children, we suggest implementing a personal allowance for each individual of how much they can claim in child-related benefits. This allowance would equal two children per couple, so if a couple with two children split up, the parent who loses custody would lose their allowance. If that person then formed a relationship with

another individual who already had two children, these children would be covered by that parent's entitlement. If they went on to have more children, however, these children would not be eligible for benefits. On the other hand, if a parent with two children but no custody of them formed a new relationship with a childless individual and they then had two children, these would be eligible under the previously childless parent's allowance.

5.2 Child poverty

The danger of this benefit cut is that children in large families are more susceptible to deprivation and poverty. 50% of children with more than two siblings are poor, which equates to 19% of all poor children.

However, focusing solely on reducing poverty in large families disadvantages poor children from smaller families as the majority of children in poverty live in families with 1 or 2 children.^{xxii} Therefore, we have to tackle underlying causes and contributing factors of poverty.

As well as being poorer, large families are also more likely to have a parent who:

- is not in employment;
- is from a minority ethnic group – particularly Pakistani or Bangladeshi;
- had their first child at a young age;
- has a preschool child in the household;
- has a low level of educational attainment;
- lives in London or Northern Ireland;
- is disabled.^{xxiii}

The odds of a child living in a low-income household were reduced if:

- the mother's current age was 25 years or older
- the youngest child in the family was aged five years or older.

Therefore, in their efforts to reduce child poverty, as well as providing non-child related financial aid to poor families, the government has to tackle these underlying issues that contribute to poverty. This would involve tackling social exclusion, teen pregnancies and marriages at a young age, and encouraging social integration, improving education and labour opportunities for women, and providing better access to childcare.

5.3 Incentivising Employment

The government should support mothers who wish to return to work so they can support their families by improving the prospects of financially beneficial employment. Six in ten of children in poverty have at least one parent in work^{xxiv}, 5 million people in the UK are being paid less than minimum wage^{xxv} and the majority of benefit payments are made to subsidise those already in work.^{xxvi} It is therefore important that the government put in place programs and legislation that ensure work pays a living wage, and that entering the workforce does not negatively impact the personal finances of any individual in relation to their benefit payments. Minimum wage laws should be strengthened, and responsibilities of employers to support and train their staff should be encouraged.

5.4 Family planning services

Since we are arguing that people should be encouraged to make responsible choices regarding family size, it is necessary that sufficient family planning services are provided. All forms of contraception should be made available via the NHS throughout the country, allowing women to

make choices that suit their health and lifestyle needs. Roughly half of pregnancies are unplanned, and every effort should be made to reduce this number so that every child is wanted.^{xxvii}

Focus should also be put on providing age-appropriate sex education, including reducing teenage pregnancies. This is especially important as risk factors for poverty and health issues, as well as infant mortality, increase when children are born to teenage mothers.^{xxviii}

5.5 Potential implementation timelines

Another issue to be discussed would be when and how to roll out any reforms agreed. Removal of benefits to third and subsequent children could be withdrawn immediately for all existing children or introduced over a period of time, slowly withdrawing benefits. Alternatively, the policy change could be introduced only for those children conceived after the date of implementation. The first scenario would introduce savings to the public purse with little delay, however, it would most likely be met with considerable opposition and possible claims that families were misled under the previous system. The second option would delay and shrink possible savings, by continuing to cover existing eligible children who might otherwise have lost their eligibility. However, opposition would be reduced and administration costs in changing the statuses of families and children avoided. This would be our preference. A third option could be reached, compromising between the two. This would have certain qualities from the other scenarios depending on the timescales involved and the method of implementation.

6. Potential public reaction

6.1 Spending cuts and fiscal savings

While there is a possibility that the public will not support further benefits cuts, there are two strong arguments the government could utilise to demonstrate that this cut is beneficial. These are fairness and employing a more targeted and effective method of reducing poverty and unemployment.

The public are concerned that benefit distribution is fair, and individuals should be encouraged to be responsible members of society aware of the impact of their personal choices. This benefit reduction should be seen as incentivising this.

Since the majority polled in a recent survey believed that welfare spending should be frozen or increased,^{xxix} the government could stress that money is being invested to ensure that fewer people have to be supported by benefits, rather than just cutting support for the sake of making savings. Further legislation could also be required in this area, strengthening or implementing laws that improve the likelihood that employment can support a family.

6.2 Population Policies

Population policies can have negative connotations; however this is an opportunity for the government to adopt a responsible attitude to population growth by taking a strong stand on improving the long term living standards of everyone, including future generations, by tackling a population “time-bomb”. This could change public attitudes towards population policies and bring the conversation about growing population further into public debate.

7. Conclusion

Limiting Child Benefits and Child Tax Credit to the first two children is a potentially sensitive policy and would need to be carefully managed and introduced along with several other measures to

improve employment prospects and reduce the risks of children falling below the poverty line. However, done effectively, it could result in long term benefits to society and to the government's finances. It would shift the focus onto responsible family planning and a more targeted approach to reducing poverty and the pressures of over-population.

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